Original

Application
Kiawah Island Utility, Inc.
for approval of a new schedule of rates and charges for water and sewer service in its certificated service area in South Carolina

Docket No. 2001-164-W/S

Testimony of
Sharon G. Scott
Audit Department

Public Service Commission of South Carolina

Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS AND POSITION WITH THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA?

A My name is Sharon G. Scott. My business address is 101 Executive Center Drive, Columbia, South Carolina. I am employed by the Public Service Commission of South Carolina as an Auditor.

Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR EXPERIENCE?

A. I received a B.S. Degree in Business Administration with a major in Accounting from the University of South Carolina in 1983 and a MBA degree from Webster University in May 2000. I was employed by this Commission in July 1983, and have participated in cases involving gas, electric, telephone, and water and wastewater utilities. I have over 18 years of auditing experience.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING KIAWAH ISLAND UTILITY, INC.?

A. The purpose of my testimony is to set forth in summary form Staff's findings and recommendations resulting from our examination concerning the above docket. These findings and recommendations are set forth in the report of the Audit Department with attached exhibits.

Q. I SHOW YOU THIS REPORT WITH ITS ATTACHED EXHIBITS, ENTITLED "REPORT OF THE AUDIT DEPARTMENT, THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA, DOCKET NO. 2001-164-W/S, KIAWAH ISLAND UTILITY, INC." DID YOU AND THE AUDIT STAFF PREPARE THIS DOCUMENT?

A. Yes, the report was prepared by other members of the Audit Department Staff and myself.

Q. (MARK FOR IDENTIFICATION). WOULD YOU PLEASE SUMMARIZE THE CONTENTS OF THIS REPORT?

A. As outlined in the report's index, pages 1 through 5 contain the Staff's analysis of the report, with the remaining pages 6 through 30 containing the Audit Staff's supporting exhibits. The major part of my testimony will refer to Audit Exhibit A, entitled Operating Experience, Rate Base and Operating Margin-Combined. Such Exhibit, as do all other of the Audit Staff's exhibits, utilizes a test year ending December 31, 2000.

Q. DO YOU HAVE ANY FURTHER EXPLANATION OF EXHIBIT A?

A. Yes, I do. The Staff prepared the exhibit in compliance with the Commission's standard procedures as to calculating income and rate base for water and wastewater utilities. A brief description of exhibit A is as follows:

Column (1): Presents the Company's combined water and wastewater operations per the Company's filing as of the end of the test period under review. Special emphasis is placed on net income for return, rate base and operating margin.

Column (2): Presents combined water and wastewater accounting and pro forma adjustments per the Staff for the period under review.

Column (3): This column details the combined water and sewer operations of the Company as adjusted by the Staff prior to the effect of the proposed increase.

Column (4): This column presents the proposed increase in water and sewer rates as computed by the Commission Staff Utilities Department and the resulting adjustments to expenses.

Column (5): This column presents the Company's normalized test year on a combined water and sewer basis after including the proposed increase.

Q. PLEASE ELABORATE ON THE CALCULATIONS IN EXHIBIT A.

A. As shown in column (1), using combined water and sewer operations per the Company's filing, the Staff computed net operating income for return of $532,562. The Staff computed a combined water and sewer rate base of $11,580,346. The Staff computed a combined water and sewer operating margin of (0.17%) after deducting combined per books interest expense of $539,191.

Shown in Column (2) are the accounting and pro forma adjustments proposed by the Staff on a combined water and sewer basis.

In Column (3), as adjusted combined water and sewer operations are presented. The Staff computed net operating income for return of $642,580. The Staff computed the adjusted rate base to be $10,051,898. The Staff computed the combined water and sewer as adjusted operating margin to be 3.98%.

Column (4) presents the Staff's computation of the Company's proposed water and sewer revenue increase of $1,139,180. The Staff increased other taxes, income taxes and customer growth for the effect of the proposed increase. The effect of the proposed increase on net income for return was computed to be $722,546.

Column (5) presents combined water and sewer operations as adjusted to normalize the test year on a pro forma basis and after the effect of the proposed increase. As a result, the Staff computed net income for return of $1,365,126. The Staff computed a rate base of $10,051,898. The Staff computed an operating margin of 17.37%.

Q. WOULD YOU PLEASE BRIEFLY DESCRIBE THE OTHER AUDIT EXHIBITS IN THE STAFF'S REPORT?

A. Exhibit A-W provides the same information as Exhibit A for the Company's water operations.

Exhibit A-S provides the same information as Exhibit A for the Company's Sewer Operations.

Exhibit A-1 details the combined, water and sewer accounting and pro forma adjustments made by the Staff and/or the Company. Company and Staff adjustments are compared in this exhibit with a brief description of each adjustment.

Exhibit A-2 details the Staff's computation of the Company's customer growth. The Staff performed the growth calculations using the formula method as detailed in Exhibit A-2. The exhibit presents combined growth, water growth and sewer growth.

Exhibit A-3 details the Staff's computation of cash working capital using the formula method. The Staff considers the formula method to be appropriate for use in this case. The Staff's formula uses a forty-five day cash working capital allowance.

Exhibit A-4 provides a reconciliation of the net income for return computed by the Company to the net income for return contained on Staff's Exhibit A.

Exhibit A-5 gives a reconciliation of the rate base contained in the Company's application to the rate base computed by the Staff on Exhibit A.

Exhibit A-6 provides a calculation of the Company's return on common equity. The rate base, as shown on Exhibit A, is allocated among the various classes of debt and equity, excluding short term debt, according to their respective ratios as computed using the Company's capital structure as of December 31, 2001. The amount of as adjusted net income for return needed to cover embedded cost rates on long term debt of 8.13% was computed by Staff to be $486,572. The remainder of net income for return is income to common equity. The Staff computed a return on common equity of 3.84% after accounting and pro forma adjustments. After the proposed increase the return on common equity was computed to be 21.60%.

Audit Exhibit A-7 shows the requirements for revenues using Staff's adjustments presented on Exhibit A and the range of operating margins of 5.00%, 10.00%, and 15.00%.

Audit Exhibit A-8 presents the Company's income statement for the year ended December 31, 2000.

Audit Exhibit A-9 presents the company's balance sheet as of December 31, 2000.

Q. WHICH ADJUSTMENTS ON EXHIBIT A-1 IN YOUR REPORT ARE THE RESPONSIBILITY OF THE AUDIT DEPARTMENT?

A. The adjustments marked with an (A) are the responsibility of the Audit Department witness and the ones marked with a (U) are the responsibility of the Utilities Department witness. The adjustments that contain both an (A) and a (U) denote partial responsibility of both departments.

Q. Please explain the Accounting and Pro forma Adjustments contained in Exhibit A-1.

A. <u>Adj. # 1 Annualize Revenues</u> - Both the Staff and the Company propose to annualize water and sewer revenues based on a bill frequency analysis for the year 2000. The Staff adjusted water revenues by $29,285 and sewer revenues by $55,917. The Company adjusted water revenues by $29,285 and sewer revenues by $55,919.

Adj. # 2 Tap Fees - Both Staff and Company propose to remove tap fees from revenue and expenses. Tap fees amounted to $42,625 for water, $41,125 for sewer and $83,750 for combined operations. The Staff and Company removed the same amount from expenses. This adjustment is made to properly match revenue and expenses since tap fee revenue should equal the cost of the tap. Staff also capitalized such tap fees and made an offsetting adjustment to Contributions in Aid of Construction. Therefore, the Staff allowed no depreciation expense.

Adj. # 3 Non-operating Refund - Both Staff and Company propose to remove the effects of a non-operating refund made to US Cable Company during the test year. The total refund amounted to $1000 ($500 for sewer and $500 for water.) The water adjustment increased revenue and the sewer adjustment decreased expenses.

Adj. # 4 DHEC Recoupement Fees - Both the Staff and Company propose to remove DHEC Recoupement Fees. The Department of Health and Environmental Control (DHEC) has jurisdiction over such fees. They are billed to the Company's customers as a separate line item on the utility bill and are intended to recover the cost of certain water testing functions required by state law. The Staff and Company have eliminated revenues of ($7,809) and Staff has eliminated the associated expenses of ($7,776).

Adj. # 5 Nonallowable Expenses - During the audit of the utility by the Staff we found certain expenses paid by the Company that the Staff would recommend disallowing for ratemaking purposes. The expenses include a donation to the hospital of $50, flowers for $483, and ½ chamber of commerce dues of $215 for a total combined adjustment of ($748).

Adj. # 6 Engineering Services - The Staff proposes to normalize the test year by capitalizing the engineering and related services in connection with a supplemental water supply study, which includes the development of the Aquifer Storage Recovery System, the new Charleston line and the Reverse Osmosis Option. Staff removed $39,102 from expenses and capitalized this amount. The Utilities Department recommended that these expenses be depreciated over 40 years. Staff computed depreciation expense of $978 ($39,102/ 40 years) and also adjusted accumulated depreciation for ($978). The Company incurred these expenses to find alternative water supply sources for its customers.

Adj. # 7 Consulting Fees - The Staff proposes to normalize the test year by amortizing consulting fees over three (3) years. The expenses include testimony of an expert witness at the PSC hearing on the Aquifer Storage Recovery System for $4,732 and a Cost of Service Study and Compensation Analysis for $2,503 for a total of $7,235. The Staff does not expect the Company to incur these costs annually. The Staff proposes to amortize this amount over three (3) years for a total of $2,412 less the per book amount of $7,235 for a total adjustment of ($4,823).

Adj. # 8 - Availability Fees - The Staff proposes to remove availability fees collected through December 31, 1991 from rate base. These fees are considered to be a contribution in aid of construction as established in Docket No. 85-83-W/S and Docket No. 92-192-W/S, Order No. 92-1030. The Staff has examined the history behind such availability fees and has concluded that the fees should continue to be treated as a contribution in aid of construction. Docket No. 85-83-W/S, Order No. 85-834, dated September 30, 1985 at page 14 states that

"The HUD Property Report issued by the parent company seems to tie the availability fee to the construction of new plant". The order goes on to state that "Because of the transfer of the plant by the parent to the utility, witness Blume contended that a strong argument existed for considering availability fees as a contribution in aid of construction". The Commission ordered in that case, that availability fees be treated as a contribution in aid of construction. The Staff proposes the same treatment for this case because such availability fees still relate to the transferred plant that is on the books of the utility. Staff removed ($1,512,920) from rate base and ($33,284) from Depreciation Expense.

Adj. # 9 Management Fees - The Company has an agreement with its parent company, Kiawah Resort Associates, L.P., (KRA), in which KRA provides the utility certain management services. The Company had booked expenses of $100,000 in management fees during the test year. The Staff's adjustment lowered management fee expenses by ($64,000). The Staff's adjustment is the same as it was in the Company's previous case (See Docket No. 98-328-W/S, Order No. 1999-216). The order in that case gave a number of reasons for limiting the fee to $36,000 including possible duplication of services provided by the parent and the direct costs incurred by the Company, lack of a sufficient way of gauging participation by the partners and/or directors of the parent, and lack of proof of the overall reasonableness of the entire fee. The Staff has the same concerns in this case. The management services agreement is the same agreement that was in effect during the previous case. Some of the services mentioned in the agreement appear to be of the type that a manager would perform. The utility company already has a manager on the payroll. The Staff still had difficulty gauging participation of the partners and/or directors of KRA in the affairs of the utility. The Company provided the Staff with the number of partner meetings and meeting dates, however, no minutes of the meetings were available for review.

The Staff believes that including $36,000 in expenses for management fees is appropriate for this case. The Staff examined time records, payroll records, and documentation of employee benefits in verifying direct labor costs that are associated with management fees. Such direct labor costs totaled $35,489. The Staff allowed $511 for overhead expenses. Therefore, the Staff believes that a management fee of $36,000 should be used for this case.

<u>Adj. # 10 Purchased Water</u> - The Company proposes to adjust purchased water for annualized system flow demand. The Company used a projected number of 835,983 for total gallons and the rate per gallon of $1.8107 for total costs of $1,513,714. To this amount the Company added Operating and Maintenance Expenses of $119,326 for a total of $1,633,040, less the per book amount of $1,613,441 for an adjustment of $19,599. Staff feels that the Company's adjustment is based on estimated growth in gallons and Staff did not make this particular adjustment. However, the Staff computed growth in both revenue and expenses by applying a growth factor to net operating income. The customer growth adjustment covers growth for the increased amount of purchased water. See Exhibit A-2 - Customer Growth.

<u>Adj. # 11 Annualized System Flows</u> - The Company proposes to adjust purchased power and chemical costs to reflect annualized system flows in the above adjustment. Again the Company used an estimate to project growth in annualized system flows and therefore the Staff did not

make this adjustment. However, the Staff computed growth in revenue and expenses by applying a growth factor to net operating income. The customer growth adjustment covers the growth in purchased power and chemical costs. See Exhibit A-2 - Customer Growth.

Adj. # 12 Annualize Wages - Both the Staff and Company propose to annualize labor to reflect annual wage increases and to adjust for a new employee. The Staff's adjustment includes the latest available wage information, which includes the new employee. The wage adjustment includes increases which were effective January 2001 and August 2001. Staff used the payroll at February 9, 2002 to compute annualized gross pay of $362,378. The Staff subtracted the per book amount of $365,555 for an adjustment of ($3,177). The Company's adjustment of $34,134 to annualize wages includes the salaries of one retired employee and one terminated employee. The Company also proposes to increase wages by $16,640 for the new employee. The Company's combined proposed wage adjustment is $50,774.

Adj. #13 Wage Benefits - Both Staff and Company propose to adjust benefits and payroll taxes as a result of the wage increase. Since Staff's wage adjustment of ($3,177) is a reduction to wages, a resulting reduction is made to payroll taxes and benefits. Staff computed FICA taxes of ($243), by multiplying ($3,177) times the FICA rate of 7.65%. The Staff computed a factor of (.0074) for pension, health and life insurance, other benefits and worker's compensation by dividing Staff's wage reduction of ($3,177) by total per book wages of $430,843. The factor was applied to benefits totaling $56,329 to arrive at a total reduction to benefits of ($417). The Company also made tax and benefit adjustments based on its proposed wage adjustment. A factor of 11.784% was computed using the annualized increase in wages of $50,774 divided by Total Annualized wages of $430,843. Pension, insurance and other benefits totaled $56,329 for the test year. The Company computed an increase of $6,638 by multiplying the 11.784% times total benefits of $56,329. FICA taxes amounted to $3,603 ($30,571 x 11.784%) plus FUTA taxes of $162 ($1,372 x 11.784%) for total taxes of $3,765.

<u>Adj. # 14 Ocean Course Drive Extension</u> - The Ocean Course Drive extension adjustment was first approved by the Commission in Order No. 92-1030, Docket No. 92-192-W/S. The order explained that the adjustment "allows the

Company to collect the costs of the Ocean Course Extension over time as the area builds out, as well as depreciate the asset as it is used". The Staff feels that such method is still appropriate for use in this case. The Staff calculated the amount to be included for Ocean Course in the same manner as was used in previous cases. The Staff determined the maximum number of taps for the area to be 410. There are currently 106 existing taps, which equates to an actual capacity rate of 25.85%. The Staff divided the actual capacity rate by the system capacity factor of 75% to determine a system equivalent capacity factor of 34.47%. The original cost of the Ocean Course facility is $381,564. The Staff computed allowable plant as of the end of the test year to be $131,531 by applying the system equivalent capacity factor to the original cost of the plant ($381,564 X 34.4715%). The Staff computed the annual growth factor to be 3.447%. The growth factor was used to determine allowable plant between test years of $13,153 per year ($381,564 X 3.447%). The Staff used three years between test years to determine total allowable plant for this case of $170,990. The Staff removed plant of ($210,574), accumulated depreciation of $65,232 and depreciation expenses of ($4,683).

Adj. # 15 Extraordinary Repair and Maintenance - The Staff and Company propose to record the amortization of extraordinary repairs and maintenance costs for the test year. These amortizations were established in Dockets No. 96-138 W/S and 98-328-W/S. The Staff's adjustment includes the amortizations for refurbishment of a well pump totaling $4,601, a supply line repair totaling $7,950, tank painting in the amount of $13,684, and sludge removal of $27,400 for a total of $53,635. The Company proposed an amortization for estimated 2002 amortizations including tank painting of $6,869, pressure washing tanks of $2,929, and sludge removal of $11,528 plus $45,031 from Docket No. 98-328, for a total adjustment of $66,357. The Company also proposes to include the unamortized balance for these deferred expenses of $147,242 in rate base. Staff did not include deferred expenses in rate base. Such deferred expenses are not an investment. They represent maintenance expenses that have been deferred from previous cases.

<u>Adj. # 16 Legal Expenses</u> - During the audit, Staff examined the Company's legal expenses and found several expenses that should be amortized to present a normalized test year. These expenses include the KPOG appeal of $1,926, and rate case appeals related to the 1998 rate case of $6,369 for a total of $8,295. Staff amortized these expenses over three (3) years for the total allowed expense of $2,765 less the per book amount of $8,296 for an adjustment of ($5,531). Staff also found loan modification legal fees of $6,259 which should be amortized over the 5 year loan period. The allowed expense would be $1,252 less the per book amount of $6,259 for an adjustment of ($5,007). The Staff's total adjustment to legal expenses amounts to ($10,538).

<u>Adj. # 17 Rate Case Expenses</u> - Both Staff and Company propose to amortize current rate case expenses over three (3) years. Staff verified the total rate case expenses of $62,027. This amount is amortized over three (3) years for a total adjustment of $20,676. The Company amortized total rate case expenses of $100,000 over 3 years for a total adjustment of $33,334. The Company estimated the cost to complete the case in arriving at rate case expenses of $100,000. The Company

also proposes to include the unamortized balance of rate case expenses of $83,334 in rate base. The Staff does not include deferred charges in rate base because they are deferred expenses and are not considered used and useful plant investments.

Adj. #18 Bad Debt Expenses - Staff examined this account during the audit and found that the expense for the test year had increased considerably over the previous years. Staff proposes to normalize the test year by amortizing these expenses over two (2) years. During the test year, the Company claimed as bad debts, the Osprey Golf late fees of $6,307 and several old accounts and late fees of $2,135 for a total of $8,442. These debts were incurred over a 2-year period. Staff amortized the total bad debts of $8,442 over 2 years for the test year allowed amount of $4,221 less the per book amount of $8,442 for a total adjustment of ($4,221).

Adj. #19 Y2K Compliance - Staff found during its audit that the account for programming services had increased considerably over the previous year. Staff determined that the increase was for expenses related to making the Company's computer system Y2K compliant. Staff normalized the test year by amortizing these expenses over a 5-year period. The total expenses amounted to $18,722 for the Y2K upgrade and training. This amount is amortized over 5 years for the allowed expense of $3,744 less the per book amount of $18,721 for Staff's adjustment of ($14,977).

<u>Adj. # 20 Depreciation Expense</u> - Both Staff and Company propose to annualize Depreciation Expense based on plant in service at December 31, 2000. Staff examined and recalculated the Company's per book depreciation expense. For the test year plant additions, the Company booked a half year of depreciation expense. Staff's adjustment included a full year of depreciation expense for these plant accounts amounting to $16,507. Several accounts were fully depreciated at the end of the test. The Staff removed depreciation expense of $11,129 associated with such fully depreciated items. Therefore, Staff reduced annualized depreciation expense of $16,507 by $11,129 for a net adjustment of $5,378. A resulting adjustment of ($5,378) is made to Accumulated Depreciation. The Company annualized group (not line item) depreciation for a total adjustment of $61,682. For this Company, group depreciation represents a change in depreciation methods which has not been approved by

this Commission. The Company adjusted accumulated depreciation by a total of ($461,349). The Company adjusted accumulated depreciation by its total annualized depreciation expense instead of its depreciation expense adjustment of $61,682.

<u>Adj. # 21 Loan Renewal Fees</u> - Both Staff and Company propose to remove the amortization of loan renewal fees of ($8,326) as an above the line expense. However the Staff reduced the loan proceeds by the total prepaid loan renewal fees of $41,606 when computing the cost of debt. Total debt at December 31, 2001 amounted to $6,980,723 less loan renewal fees of $41,606 resulting in debt of $6,939,117. The computed interest expense at December 31, 2001 amounted to $564,123. The cost of debt is 8.13% ($564,123/6,939,117).

<u>Adjustment # 22 Income Taxes</u> - Staff computed income taxes on an as adjusted basis. Both Staff and Company used a blended tax rate of 37.30% (5% for state and 34% for federal). Staff used water and sewer operating revenue less expenses and synchronized interest expenses to compute income tax expense. The income tax expense for water operations was $89,052, and ($4,053) for sewer operations and $84,999 for combined operations.

Adjustment # 23 Plant Additions - Both Staff and Company propose to increase rate base for plant additions made after the test year through February 2002. Staff verified a total of $129,006 for plant additions. These include the cost of a gate and security system of $3,433, the Surfwatch Pump Station Rehab Project totaling $102,301, and the Headworks R & R Project totaling $23,272. Staff computed depreciation expense of $3,134 and adjusted accumulated depreciation for ($3,134). The Company proposed to include $160,000 in plant additions. The Company's proposal was based on estimated plant additions.

Adjustment # 24 Cash Working Capital - The Staff adjusted cash working capital for items which correct the books. This has the effect of keeping cash working capital (CWC) on a per books basis. Cash working capital was computed by the staff using one eighth of operating and maintenance expenses as seen on Staff Exhibit A-3. The one-eighth formula approach is based on a 45 day cash working capital allowance. The Staff found that the Company bills its customers after it renders service to them. The average bill contains 30 days worth of service. It takes an additional 5 days after rendering service for the utility to read the meters, edit bills, and perform any re-reads, and then print and mail the bills out to its customers. The utility then receives payment from its customers within about 15 days. The customer is allowed 25 days from the statement date to pay before late charges are assessed. The Staff believes that the above justifies the use of 45 days in the formula. The Company has not conducted a lead lag study for this case. Staff adjusted CWC for expenses which correct the books for a total adjustment of ($28,804). The Company's adjustment is based on total O & M pro forma adjustments less the amortization for rate case and extraordinary expenses for an adjustment of ($796).

Adjustment # 25 Customer Growth - Customer growth was updated to February 2002 to reflect adjustments made outside the test year. At February 2002, water customers amounted to 3,200 and sewer was 2,838. Staff used the Commission approved formula to compute customer growth. Staff computed average customers using the beginning and ending customers divided by 2. End of the period customers minus average customers divided by average customers was used to compute the customer growth factors of 1.81% for water and 2.64% for sewer. These factors are then applied to net operating income which computes growth for revenue and expenses. The Company proposed a revenue customer growth adjustment by computing the growth in number of bills times the average bill for an adjustment to water revenue of $2,762 and sewer revenue of $957.

Adjustment # 26 Gross Receipts Taxes - Both Staff and Company propose to true-up per book gross receipts taxes. Staff verified per book gross receipts taxes of $45,128. Staff then computed gross receipts taxes based on as adjusted revenues of $3,919,244 times a gross receipts tax rate of .011206749 to arrive at adjusted gross receipts taxes of $43,922. The Staff subtracted the per book amount of $45,128 for Staff's adjustment of ($1,206). The Company proposed to adjust gross receipts taxes by $44,144.

Adjustment # 27 Eugenia Avenue - The Staff removed legal fees of ($204) associated with the Eugenia Avenue Sewer Main Extension. In Docket No. 97-497-S, Order No. 98-149, dated February 25, 1998, the Commission approved a sewer main extension fee for the Eugenia Avenue customers to cover such costs.

Adjustment # 28 Proposed Revenue - Both Staff and Company propose to adjust revenue for the effect of the proposed rates and charges. Staff proposes to increase water revenues by $680,187 and sewer revenues by $458,993 and combined operations by $1,139,180. The Company proposed to increase water revenues by $656,781, sewer revenues by $445,595, and combined revenues by $1,102,376.

Adjustment # 29 Proposed Increase - Gross Receipts Taxes The Staff computed the gross receipts taxes associated with the proposed increase using the most recent factor of .011206749 applied to the proposed revenue. Staff's adjustment amounted to $7,623 for water, $5,144 for sewer and $12,767 for combined operations. The Company computed $7,391 for water, $5,014 for sewer, and $12,405 for combined operations.

Adj. # 30 Proposed Increase - Income Taxes - The Staff computed income taxes associated with the proposed increase of $249,783 for water, $169,249 for sewer, and $419,032 for combined operations. The Company computed $197,069 for water, $124,326 for sewer, and $321,395 for combined operations. Both Staff and Company used synchronized interest to compute income taxes.

<u>Adj. # 31 Proposed Increase - Customer Growth</u> - The Staff computed the customer growth for the effect of the proposed increase. Exhibit A-2 shows the details of this adjustment.

Q. MS. SCOTT, DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.